



# Important Tax Information About Payments From Your TSP Account

Before you decide how to receive the money in your Thrift Savings Plan (TSP) account, you should review the important information in this notice. Although the TSP can assist you with your withdrawal, we cannot provide tax advice. Because tax rules are complex, you may wish to speak with a tax advisor before you make any withdrawal decisions.

You can find more specific information on the tax treatment of payments from qualified employer plans like the TSP in IRS Publication 575, *Pension and Annuity Income*, IRS Publication 590, *Individual Retirement Arrangements (IRAs)*, and IRS Publication 721, *Tax Guide to U.S. Civil Service Retirement Benefits*.

You may contact the TSP Service Office for assistance with your withdrawal. See Section 4, Resources, on page 4.

## 1. Federal Income Tax Withholding

Your contributions to the TSP were tax-deferred. This means you have not yet paid taxes on your contributions, any agency contributions, or earnings. Instead, you will owe taxes when you receive a payment (distribution) from your account. We report all TSP distributions to the Internal Revenue Service (IRS) and to you on IRS Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.

We must withhold for Federal income tax from payments we make to you unless you are allowed to request reduced or no withholding. For purposes of IRS withholding, there are three types of payments: **eligible rollover distributions**, **periodic payments**, and **non-periodic payments**. The chart on the next page describes the withholding rules that apply to each type of TSP payment. It also shows the withholding rate and whether you can decrease or waive the withholding amount. If you want to change the standard withholding elections, you must file IRS Form W-4P, Withholding Certificate for Pension or Annuity Payments, **with** your withdrawal request.

If the amount we normally withhold is not enough to cover your tax liability, you can

ask us to withhold more on IRS Form W-4P, and submit it with your withdrawal request.

Note that if you elect a “mixed withdrawal” (e.g., an annuity and a single payment), each type of distribution is treated separately and may be subject to different tax withholding rules.

We do not withhold for state or local income tax. However, we do report, on IRS Form 1099-R, all TSP distributions to your state of residence at the time of the payment (if that state has an income tax). You may need to pay state and local income taxes on your payment. Your tax advisor or state or local taxing officials can explain any potential tax obligations.

### Special note for members of the uniformed services.

TSP accounts for members of the uniformed services may include contributions from pay that is subject to the combat zone tax exclusion. That pay, earned in a combat zone, is exempt from Federal income tax. Consequently, TSP contributions from that pay are also tax-exempt. However, the earnings on those contributions are taxable when they are distributed. Therefore, if you receive a payment from an account that has both tax-deferred and tax-exempt contributions, your distribution will be paid in the

# Tax Notice

# Tax Treatment for TSP Payments

Type of TSP Payment	Type of Payment for IRS Purposes	May I Transfer or Roll Over the Payment?	What Is the Withholding Rate?	May I Increase Withholding (using IRS Form W-4P*)?	May I Decrease Withholding (using IRS Form W-4P*)?	May I Waive Withholding (using IRS Form W-4P*)?
Single payment full withdrawal after separation	Eligible rollover distribution	Yes	20% mandatory	Yes — complete line 3	No	No
Monthly payments for less than 10 years (requested dollar amount)	Eligible rollover distribution	Yes	20% mandatory	Yes — complete line 3	No	No
Monthly payments for 10 years or more (requested dollar amount)	Periodic payments	No	As if married with 3 dependents	Yes — complete line 2 to change exemption and line 3 for additional dollar amount	Yes — complete line 2	Yes — complete line 1
Monthly payments based on the IRS life expectancy table	Periodic payments	No	As if married with 3 dependents	Yes — complete line 2 to change exemption and line 3 for additional dollar amount	Yes — complete line 2	Yes — complete line 1
Automatic cash-out (less than \$200)	Eligible rollover distribution	Rollover only	None	Not applicable	Not applicable	Not applicable
Partial withdrawal after separation	Eligible rollover distribution	Yes	20% mandatory	Yes — complete line 3	No	No
Required minimum distribution payments	Non-periodic payments	No	10%	Yes — complete line 3	No	Yes — complete line 1
Final single payment after a series of monthly payments	Eligible rollover distribution	Yes	20% mandatory	Yes — complete line 3	No	No
Age-based in-service withdrawal	Eligible rollover distribution	Yes	20% mandatory	Yes — complete line 3	No	No
Financial hardship in-service withdrawal	Non-periodic payment	No	10%	Yes — complete line 3	No	Yes — complete line 1
Loan taxable distribution — default by separation	Eligible rollover distribution	Rollover only (using personal funds)	We cannot withhold because the money was already paid to you	Not applicable	Not applicable	Not applicable
Loan taxable distribution — default while still employed	Non-periodic payment	No	We cannot withhold because the money was already paid to you	Not applicable	Not applicable	Not applicable
Court order payment to a current or former spouse	Eligible rollover distribution	Yes	20% mandatory	Yes — complete line 3	No	No
Court order payment not to a current or former spouse	Non-periodic payment	No	10%	Yes — complete line 3	No	Yes — complete line 1
Death benefit to a spouse beneficiary	Eligible rollover distribution	Yes	20% mandatory	Yes — complete line 3	No	No
Death benefit to a non-spouse beneficiary	Non-periodic payment	No	10%	Yes — complete line 3	No	Yes — complete line 1
Annuity purchase	Not reported to the IRS by the TSP; payments will be reported for tax purposes by the annuity provider					

\* Be sure to fill in your name, address, and Social Security number and to sign and date IRS Form W-4P, “Withholding Certificate for Pension or Annuity Payments,” before you submit it to the Thrift Savings Plan. The completed Form W-4P must be submitted **with** the withdrawal request.

same proportions as your tax-deferred and tax-exempt balances, and the TSP will report the tax-exempt portion separately on IRS Form 1099-R.

**Special note regarding annuities.** Payments you receive from an annuity that the TSP purchases for you are also subject to tax withholding. You will receive information from the annuity provider about making a withholding election.

## 2. Transferring or Rolling Over Your TSP Distribution

Some payments from the TSP may be transferred or rolled over to a traditional individual retirement account (IRA) or an eligible employer plan. Such payments, called “eligible rollover distributions,” are identified on the chart.

**An eligible employer plan** includes a plan qualified under section 401(a) of the Internal Revenue Code, such as a section 401(k) plan, profit-sharing plan, defined benefit plan, stock bonus plan, and money purchase plan; a section 403(a) annuity plan; a section 403(b) tax-sheltered annuity; and a section 457(b) plan maintained by a governmental employer.

**A traditional IRA** is any IRA that is not a Roth IRA, a SIMPLE IRA, or an education IRA.

Other payments are characterized as either “periodic” or “non-periodic.” See the chart for the tax treatment of each type of payment.

No IRA or eligible employer plan is required to accept a transfer or rollover. Before you decide to transfer or roll over your TSP account, you should find out whether your IRA or plan accepts transfers or rollovers, and if the IRA or plan has a minimum amount it will accept.

If your payment is an eligible rollover distribution, you may ask the TSP to transfer part or all of the payment directly to your IRA or plan. If you receive an eligible rollover distribution directly, you may deposit (roll over) the payment to your IRA or plan.

If you choose to have the TSP **transfer** part or all of your eligible rollover distribution:

- Your transfer will not be taxed in the current year and no income tax will be withheld.
- Your payment will be taxed when you withdraw it from the traditional IRA or the eligible employer plan.
- Depending on the type of plan, a withdrawal from it may be subject to different tax treatment

and plan rules (such as different spousal consent rules) than a distribution from the TSP.

- If you are over age 70½ and a portion of your payment is a required minimum distribution, that portion will not be transferred. Instead, it will be paid directly to you after 10% has been deducted for Federal income tax withholding. This rule also applies if you are receiving monthly payments and elect to receive a final single payment that includes a required minimum distribution.

If the TSP pays an eligible rollover distribution directly **to you**, and you decide to do a “**rollover**”:

- You will receive only 80% of the taxable amount of the payment, because we are required to withhold 20% for Federal income tax.
- Your full payment will be taxed in the current year unless you roll over part or all of it within 60 days after you receive the payment.
- You can roll over all or part of the payment to your IRA or plan. The amount rolled over will not be taxed until you take it out of the IRA or plan. However, if you want to roll over 100% of the payment, you must replace the 20% that was withheld with your own funds. If you roll over only the portion you received, you will be taxed on the 20% that was withheld and not rolled over.
- Depending on the type of plan, a withdrawal from it may be subject to different tax treatment and plan rules (such as different spousal consent rules) than a distribution from the TSP.

### **Special note for members of the uniformed services.**

TSP tax-exempt contributions may be transferred or rolled over into a traditional IRA or transferred into certain eligible employer plans only if the IRA or plan certifies that it will accept tax-exempt contributions. If the IRA or plan does not accept tax-exempt money, that amount will be paid directly to you.

## 3. Other Tax Rules

### *Repayment of plan loans*

If you separate from Federal service with an outstanding TSP loan and you do not repay the entire loan by the established deadline, we must declare a taxable distribution of your outstanding loan balance before we can process your withdrawal request.

To avoid current tax (and, if applicable, an additional 10% penalty tax, as discussed on page 4), you may deposit part or all of the taxable loan distribution amount

into a traditional IRA or an eligible employer plan — using your personal funds — within 60 days of the date of the taxable distribution.

This rollover rule does not apply to taxable loan distributions declared while you are still employed.

### ***Additional 10% penalty tax if you are under age 59½***

If you receive a TSP distribution before you reach age 59½, in addition to the regular income tax, you may have to pay an early withdrawal penalty tax equal to 10% of any portion of the distribution not transferred or rolled over. The additional 10% tax generally does not apply to payments that are:

- Paid after you separate from service during or after the year you reach age 55;
- Made because you are totally and permanently disabled;\*
- Paid as substantially equal payments over your life expectancy;
- Annuity payments;
- Ordered by a domestic relations court;
- Made because of death; or
- Made in a year you have deductible medical expenses that exceed 7.5% of your adjusted gross income.\*

### **Special note for members of the uniformed services.**

The penalty tax does not apply to that portion of a TSP distribution (including the taxable distribution of a loan) which represents tax-exempt contributions from pay earned in a combat zone.

### ***Changing your monthly payments***

Participants receiving monthly payments may change the amount annually. If you elect either to change the fixed dollar amount of your payments or to change from payments based on life expectancy to a fixed dollar amount, the withholding from your payment may change. The withholding rules will be determined according to whether your new payments are eligible rollover distributions or periodic payments (based on your account balance at the time the payment amount changes).

In addition, changing from monthly payments based on life expectancy to a fixed monthly payment amount may make you liable for the 10% penalty tax on the

payments you previously received, if you do so within 5 years of beginning your payments or before you are age 59½. To learn more, see IRS Publication 575, *Pension and Annuity Income*.

### ***Required minimum distribution if you are over 70½***

If you are over age 70½ and are separated from Federal service, you must either withdraw your entire TSP account or begin receiving monthly payments by April 1 of the year following the year you turned 70½. In addition, this April 1 date is the deadline for the TSP to start to distribute the IRS “required minimum distribution,” a minimum amount of the money in your account which you must receive each year. For more information, see the TSP tax notice “Important Tax Information About Your TSP Withdrawal and Required Minimum Distributions.”

### ***Special tax treatment if you were born before January 2, 1936***

If you were born before January 2, 1936, and you receive your entire account in a lump sum distribution, you can make a one-time election to calculate the amount of the tax on the distribution by using the 10-year tax option and using 1986 tax rates. The 10-year tax option often reduces the tax you owe. To learn more, see IRS Publication 575, *Pension and Annuity Income*.

### ***Rules for nonresident aliens or beneficiaries of nonresident aliens***

Special tax withholding rules apply to TSP payments made to nonresident aliens and beneficiaries of nonresident aliens. To learn more, see the TSP tax notice “Tax Treatment of Thrift Savings Plan Payments to Nonresident Aliens and Their Beneficiaries.”

## **4. Resources**

TSP publications are available from the TSP Web site, [www.tsp.gov](http://www.tsp.gov), or by calling the TSP Service Office toll free at 1-877-968-3778 (TDD: 1-877-847-4385). Outside the U.S. and Canada, please call 404-233-4400 (not toll free). You can also send a fax to 1-866-817-5023 or write to the TSP Service Office at the address on the TSP Web site.

IRS publications are available from your local IRS office, on the IRS Web site at [www.irs.gov](http://www.irs.gov), or by calling 1-800-TAX-Forms.

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\*The TSP cannot certify to the IRS that you meet these exemption requirements when your taxes are reported. Therefore, you must provide the justification to the IRS when you file your taxes.